

# FINAL TRANSCRIPT

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## **BRBY.L - Interim 2008 Burberry Group plc Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Angela Ahrendts**  
*Burberry Group plc - CEO*

**Stacey Cartwright**  
*Burberry Group plc - CFO*

## CONFERENCE CALL PARTICIPANTS

**Erwan Rambourg**  
*HSBC - Analyst*

**Nick Coulter**  
*Numis - Analyst*

**Louise Singlehurst**  
*Morgan Stanley - Analyst*

**John Guy**  
*MF Global - Analyst*

## PRESENTATION

### Unidentified Company Representative

So, welcome everyone. As this is being webcast live, could I just remind you to please turn off your phones and Blackberries. Thank you.

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**Angela Ahrendts** - *Burberry Group plc - CEO*

Good morning and welcome to Burberry's results presentation for the six months to September 30, 2008.

Although the primary topic that we would -- although the primary topic would normally be the first half of the year, we know that the last six months are a lot less on your mind than really the next six months or the prior year. So, today, while Stacey and I will update you on the first half, we'll actually spend more time than usual discussing future periods.

Looking at the first half on an absolute basis, while not perfect, performance was good. And in the context of a progressively [weakening] external environment, we feel very good. And this is true for both the first, as well as the second, quarter.

On a currency-adjusted basis revenue grew 13%, with a 14% increase in Retail and a 15% increase in Wholesale.

Double-digit growth in all product categories and double-digit growth in all regions, excluding Spain.

Operating profit increased 3% or 7% for one-off costs -- adjusting for one-off costs.

These results were driven by the continued execution of our core strategies, which most of you are familiar with at this stage, and have driven 13 quarters of consecutive double-digit growth at Burberry.

So, today, we'll address both the financial results and strategy during the presentation.

Looking forward in line with our luxury -- in line with the luxury sector, trading has become more difficult since the start of the second half. It must be true for everyone in this room that we've never faced a more uncertain consumer environment on a

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global basis. So, in response to this uncertainty, although staying true to our core strategies which have been affected while making tactical adjustments, we will discuss increasing investment in Emerging Markets, for example, while at least in the near term taking a more conservative approach to capital expenditure in other markets.

We continue to intensify our non-apparel but impose a more rigorous process to line development.

We're access -- accelerating the realization of benefits from recent investments in supply chain, IT and infrastructure. This will deliver GBP15m to GBP20m of incremental benefits next year. And we're looking at other opportunities for further consolidation and rationalization that may be appropriate in a changed external environment.

So I'll hand the podium first over to Stacey, who will take you through the first half financial performance.

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**Stacey Cartwright** - Burberry Group plc - CFO

Thank you, Angela. Good morning, everybody. I'll start by giving you the financial highlights.

The revenue for the six months was up 20% to GBP539m.

Both adjusted and reported operating profits were up 3%. Excluding the GBP1.8m of SAP rollout costs and GBP2m relating to our move to our new global headquarters and showrooms at Horseferry House, adjusted operating profit was up 7%.

Adjusted earnings per share was also up 3% and we've declared a maintained interim dividend of 3.35p per share.

Let's look closely at revenue first. At reported exchange rates, revenue in the half grew by 20%, or 13% underlying. In a change from recent years FX movements have actually been a boost to our reported numbers with a GBP31m benefit to the top line.

We have included in the Appendix a restatement of our first half profit at current -- well, sort of current, spot rates to give you an idea of the potential ongoing positive translation impact of exchange rates.

Retail revenues increased by 14% underlying, while Wholesale revenue growth marginally outpaced retail, up 15%.

Our Licensing revenue was down 3% underlying and I'll take you through the reasons for that shortly. And given that we've already reported revenue numbers, let me quickly run through these before turning, in more detail, to profit and cash.

If we look at Retail Sales first, which grew by 14% at constant currency, here comparable store growth was 3.4% for the half but, as you're aware, this slowed in the second quarter to 2.6% as the economic environment became more challenging and trading became even more volatile.

A lower proportion of our sales were achieved at full price with an impact on gross margin, which I'll explain later.

The US continued to post double-digit comp growth in the first half, although do note that this has turned negative since the start of the second half.

Asia and Europe also posted positive comp growth in the half and, during the period, we opened a net five mainline stores with a 13% increase in average selling space. And we're expecting to add about 12% new space in the second half.

Momentum continued in our Wholesale business with 15% underlying growth delivered in the half, and this followed 20% underlying growth last year. That was 16% in H1 and 25% in H2.

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A key benefit to the Wholesale channel has been the work that we've been doing on the supply chain, which we talked to you about in May. We've been able to deliver orders on time this year, around four weeks to six weeks earlier than last year, protecting against the risk of cancellations and offering more opportunity for reorders.

By region, North America and Europe grew strongly and Emerging Markets were up over 50% in the half.

Again, the US has become more difficult since the start of the second half, but we do continue to gain share with our department store customers.

Licensing revenue was down 3% on an underlying basis. Income from Japan was marginally down for both apparel and non-apparel, reflecting some of the softness that we, and others, have seen in the market.

We've purposely not renewed more of our men's ready-to-wear licenses and that has represented lost sales of around GBP0.6m in the half, with a more than offsetting pickup in our Wholesale business instead.

But we've had good growth from our global product licenses, where we continue to work more closely with our partners on design. For example, for the Spring '09 season the same design (technical difficulty) that are being used on our inhouse jewelry collection are being employed in the licensed eyewear and timepieces, and our watches are now in the Wonder Room at Selfridges.

The global rollout of our women's fragrance, Burberry The Beat, has delivered very pleasing results. And The Beat For Men has just launched exclusively in the US with a global launch in Spring '09.

For '08/'09 as a whole, we're now expecting Licensing revenue to be slightly down on an underlying basis year-on-year, reflecting a modest softening in Japan and lower output versus prior year of certain global licensed products.

As you can see from this chart, we saw good double-digit growth in all of our regions, except for Spain.

In the Americas, which we continue to view as an underpenetrated market, and in Europe and Asia. And the Rest of World segment, which is primarily Emerging Markets, is the fastest growing region where we continue to open new stores in conjunction with partners.

As you're aware, Spain remains a difficult market for us. Comparable store sales continue to be down double-digit year-on-year, and the Wholesale order book is trending down double-digit as we continue to see the contraction of the domestic independent retailers who are our biggest Wholesale customer by type.

We're rigorously examining every option to improve the profitability and efficiency of our Spanish business.

And turning now to profit. Adjusted operating profit increased by 3%, moving from GBP95.1m to GBP98.4m, which includes GBP3.5m currency benefit. On an underlying basis, Retail and Wholesale profits were marginally up on last year and Licensing marginally down.

The operating margin fell from 21.2% to 18.3%, reflecting the continuing planned trend for the lower proportion sales from Licensing, that had about 100 basis point impact, and lower Retail/Wholesale margin, including the impact of Spain.

Looking first at the Licensing profit and loss account. With sales down 3% on an underlying basis, a tight control of operating expenses held profits broadly flat. And the operating profit margin increased to 85.6% (technical difficulty) 3.5% last year.

Turning to Retail/Wholesale, revenue was up 22% reported. Gross margin as a percentage of sales was down 340 basis points, and we incurred Horseferry and SAP costs of GBP3.8m in the first half, with a further GBP6m expected in the second half.

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Excluding these costs, operating expenses as a percentage of sales were down 190 basis points, reflecting careful management of discretionary spend versus plan in the year-to-date.

Overall, the Retail/Wholesale operating margin was down to 12.9%, or 13.7% if you exclude Horseferry and SAP costs. And the downturn in Spain, which has historically been a high margin region for us, has had a significant impact on Group margins. If we exclude Spain from sales and profits in both '07 and '08, then our Retail operating margin is broadly unchanged year-on-year.

Now, let me look at the drivers of gross margin. On the positive side, we had further sourcing gains and a higher proportion of revenue from non-apparel. A markdown activity in mainline stores was broadly in line with the same as the period of last year.

However, these factors were more than offset by the cost of clearing inventory. And especially as a higher proportion of sales went through our outlets rather than mainline stores at a lower gross margin. As you know, outlets are our normal profitable way of clearing stock and they're managed by the same retail teams that run the mainline stores.

Aside from the current economic climate, which has affected consumer sentiment and shopping patterns, the strong growth in outlets has also been driven by the increased breadth and depth of fashion assortments that we've had flowing from mainline to outlets, as well as the benefit from recent refurbishments in many of our outlets.

As we look forward to the second half, we'd expect continued -- expect to continue to see pressure on gross margins, with a slowdown in sales impacting inventory and inventory clearance activity.

Now let me look at more detail of how we've managed our cost base in the first half. As I said, excluding the GBP3.8m of Horseferry and SAP-related costs, other operating expenses as a percentage of sales fell by 190 basis points to 43.1%.

In overall terms, other operating expenses increased by 17% below revenue growth of 22%. And the full-year impact of the investments that we've made during '07/'08 in areas such as design, IT, supply chain, warehousing and distribution, increased costs in the first half.

Marketing costs were up year-on-year but slightly down as a percentage of sales as we spent our resources more creatively. But other corporate costs were below budget, and last year, reflecting tight controls in areas such as headcount, travel, general expenses, and reduced performance-related share scheme costs.

We have a tight control of costs going into the second half and, as Angela will explain later, with our supply chain, IT and infrastructure investments in their final phases, we're now accelerating our cost-efficiency program for '09/'10 and beyond.

Looking at the income statement, below the GBP98.4m adjusted operating profit, our Burberry Middle East joint venture, announced today, results in a positive impact from a goodwill adjustment of GBP1.7m. This raises our reported operating profit to just over GBP100m, a 3% increase compared to last year.

On the net finance charge, I should highlight that the GBP3.1m charge includes the benefit of GBP1.5m, which is interest received from the tax authorities on a tax refund. Our full-year expectation is for a charge of around GBP7m as interest rates fall.

The first half reported tax rate benefited from the prior-year adjustments, which we have excluded when calculating adjusted EPS. And you should note that, for the full year, we're now expecting the effective tax rate on adjusted profits to be in the order of 29.5% versus just under 31% last year, reflecting a shift in geographical mix of profit.

Moving on down to cash flow. Here, we show the cash from operations. The depreciation and amortization GBP19.5m in the half and our increase in working capital overall is below the same six months last year.

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Let me just give you a little bit more color on inventory. Inventory as at September 30 was GBP331m, an increase on the balance sheet of GBP43.8m from March '08 and GBP87m from September '07, after adjusting for exchange rates and the Burberry Middle East joint venture.

Of the year-on-year increase, about half results from sales behind plan and a lower-than-expected department store reorder level. About one quarter comes from changes in the business model, including the SAP conversion, and of holding more replenishment stock now in core outerwear and non-apparel. And the remaining quarter is to support growth in the business, including new stores.

As you can imagine, in this environment, we're very focused on reducing inventory levels. I've already spoken about how we have an established control channel for profitably clearing stock via our outlets. In addition, we're assess -- reassessing the timing of certain Spring '09 orders wherever appropriate, and we're planning very cautiously for Autumn/Winter '09, which actually starts to ship in June '09.

And, as Angela will explain, our new integrated global planning function, helped by SAP, will help balance the buy for new seasons with the need for inventory clearance.

Moving down to cash flow, I'll talk about CapEx in detail on the next slide. Here, I'll just highlight the tax paid. As I mentioned a few moments ago, we have received a rebate relating to prior years in the half, which reduced our cash tax payment by GBP14.5m.

Capital expenditure is one of the key areas we're looking to manage aggressively as we work through the current economic downturn. We talked previously about our normalized annual expenditure being around GBP60m. In this year, '08/'09, we're now expecting to spend around GBP90m, which is actually down from our previous guidance of up to GBP95m, despite now including investment for our Burberry Middle East joint venture.

On an underlying basis, we're planning a reduction of up to GBP10m in the second half through renegotiating and deferring certain projects. Remember, in this year, very exceptionally, we have fit-out costs of around GBP23m for Horseferry House which, of course, was fully funded by the proceeds from selling our Haymarket building last year.

As you'd expect in the current climate, we're continuing to invest in the future of the brand but also raising the bar on our high return on capital hurdle to ensure that we're even more selective on projects.

For '09/'10, at this preliminary stage we're planning for CapEx to be approximately in line with ongoing depreciation, excluding the modest spend that will be required for the planned Japanese joint venture.

The pace of store openings will slow slightly, adding a high single-digit percentage to average selling space. We're actively going back to landlords even on deals that have been signed to renegotiate more favorably, given the environment, and the pace of store refurbishment will be moderated and all other CapEx under closer scrutiny.

And, finally, on the total cash flow, we've received -- we've returned GBP37m to shareholders through dividends in the half. As you'll see, there was no buyback in the first half and, as we said in the announcement this morning, in light of the current economic environment and financing conditions, there are no plans for a share buyback in the current financial year.

Our net debt position at the end of September was GBP114m, in line with the normal seasonal pattern of cash outflows in the first half, and inflows in the second half. This is, of course, all fully funded within our existing banking facilities. And, just to remind you, we have two banking facilities totaling GBP260m, one for GBP200m that runs until March 2010 and one for GBP60m that runs until June 2011.

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As you'd expect, we're actively watching the credit status of both our suppliers and our Wholesale customers. We've seen no real problems to date but we are remaining vigilant.

As we said in the statement this morning, since the start of the second half, the trading environment has become more difficult, as evidenced by a number of recent announcements from luxury goods companies.

For Burberry, Europe, Asia and Emerging Markets continue to show positive comparable store sales growth. Spain remains weak in both Retail and Wholesale. The United States, however, has become a more challenging market.

Overall, since the start of the second half, total Retail sales for the Group are ahead of last year but comparable store sales are down mid single-digit.

Burberry's also planning for total Wholesale revenue to be down by mid to high single-digit percentage on an underlying basis in the second half, really dependent upon the final demand for in-season reorders in these volatile markets.

While profits for the financial year remain dependent on peak season trading, if these initial trends were to continue for the rest of the year, adjusted profit before tax would be in the mid to lower half of the current range of market expectations for this financial year.

We will give you further information about progress in the second half when we report in January. And Angela will speak later about what we're doing on revenue and costs to manage our way through the difficult economic environment.

And, finally, this slide just summarizes our guidance for the second half of the year, most of which I've already touched on. But, before I hand back to Angela, we'd like to show you a first half highlight DVD illustrating much of what we were able to accomplish in the first half.

(Video playing).

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**Angela Ahrendts** - Burberry Group plc - CEO

We think showing you the DVD gives you a little additional dimension behind the numbers and just gives you a little more insight into what we actually do every day.

So there's a lot of great things happening at Burberry and a wonderful brand momentum that we feel will help us remain a top performer in each region, channel and product category worldwide.

I'll discuss several of these today. But, first, I'm going to highlight progress across our five strategies, including details on Emerging Markets and the new joint venture in the Middle East.

I'll give you a brief overview of our new non-apparel JV in Japan. And, under operational excellence, I'll review some of the efficiencies we expect to achieve from investments in supply chain, IT and infrastructure. These investments made, we are accelerating the realization of benefits in the current climate.

So under leveraging the franchise, in this increasingly difficult trading environment, we delivered double-digit growth in all product divisions in the first half. In particular, we're delighted with the progress on our childrenswear initiative which is being led by our Spanish team. Childrenswear sales were up over 50% in the half.

And, as we look forward, we expect further good growth as we expand both our own distribution network, with four new freestanding stores planned in the second half. And, in Wholesale, where the number of childrenswear doors in the US were

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nearly double for Spring/Summer '09. And just to remind you, we said that our goal for childrenswear is to be 10% of total revenue in five years' time.

The Autumn/Winter ad campaign was strategically focused on key business drivers, there's actually one of the holiday mailers on your chair. And we always feature outerwear and this time added a fresh dimension with iconic, as well as fashion, styles.

For Fall, we took out the heavy artillery and featured our iconic check handbags and scarves much more prominently than in past seasons. We also emphasized menswear, where we believe we have share to gain and a theme that we'll return to in the future. And we ran ad campaigns specifically on childrenswear as well as on our new shoe initiative.

To support the consumers' digital appetite, we are making more insightful entertaining online content, like behind the scenes of a runway show or the ad campaign shoot with Christopher Bailey and Mario Testino.

In this economic environment, we find that our PR dollars will more cost-effectively extend our brand reach. A print ad runs for a month while a celebrity image runs online for years. This strategy or shift will continue well into next year.

We also made further progress in non-apparel in the first half. Sales on and underlying basis grew by 20% so that non-apparel now represents 31% of total sales. Within handbags, which make up about 40% of our non-apparel sales, we further strengthened and diversified our core check program.

We revitalized the Haymarket, Nova and House Check, developing fashion capsules inspired by the runway. Added further innovation and a new modern Mega Check and launched a new check, not coincidentally to tie in with the launch of The Beat fragrance. Benefiting the advertising that our Licensing partners put behind that launch.

On shoes, we continue to build this business, filling out the pyramid at each level with expanded ranges improving style. And gaining traction with Wholesale accounts where we estimate that, in line with our peers, about 70% of our business will be generated in this channel the next few years.

We're now in a total of 120 US department store shoe doors and, as I also mentioned in May, we expect shoes to be 10% of revenue in approximately five years' time.

And, finally, on non-apparel we continue to improve our business model. We're designing and building ranges to concentrate on increasing sales of higher margin replenishment styles. And we continue to improve our non-apparel sourcing as we begin -- as we build scale in certain product categories.

And I'm very excited that this overnight we have finalized a joint venture agreement with our long-standing licensing partners, Sanyo Shokai and Mitsui and Company. The purpose of this new venture, majority-owned by Burberry, is to develop the retail distribution of our global non-apparel products in Japan, the largest luxury accessory market in the world, and where we don't play in those categories right now.

The venture plans to be operational in calendar 2009 and our new Managing Director, who has extensive luxury experience in the market, will be on board next week. He will be instrumental in the development of this new Burberry business. I look forward to sharing more details with you as the business progresses.

As Stacey highlighted, Retail sales grew by 14% underlying in the first half. Average selling space increased by 13% and we opened a net five mainline stores and a further five franchise stores.

I mentioned in May how we were investing in the LA market, not only refurbishing the Beverley Hills flagship, doubling the size of the mainline store in South Coast Plaza, refining the offer in Bev Center, a small footprint store, and increasing our Wholesale



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penetration in that flagship market. And this isn't the only market we're using our flagship cluster strategy, you can see a similar rollout around Boston, London and Dubai, for example.

We will continue to selectively invest in more resilient, high demographic markets and continue to test small store formats which are less capital intensive, including non-apparel and childrenswear.

So, as Stacey explained, we are focusing, delaying and reducing our capital expenditure, planning for '09/'10 CapEx being broadly in line with ongoing depreciation. While we have deferred some large flagship refurbishments, we will still be adding high single-digit percentage new retail space. And, as you can imagine, we're running very rigorous sensitivity analysis on all new capital projects in this environment.

We're also going back to property developers, as Stacy mentioned, to renegotiate terms on current projects.

We will be diligent in achieving our high hurdle rate for any investment opportunity.

So, shifting to under-penetrated markets. Here, I'll concentrate on Emerging Markets, given that we have, this morning, announced a joint venture in the Middle East. We define Emerging Markets as the BRIC countries, plus the Middle East, Eastern Europe and South Africa. We exclude countries such as Korea and Hong Kong which, for us, are already established markets.

Emerging Markets represented about 6% of sales last year and grew by over 50% in the year and again in the half. We tend to operate a franchise model in Emerging Markets, selling to our partners as Wholesale customers.

One of the important things about these franchise stores is that, for customers, they look and feel just like the Burberry directly-operated store. They only offer the global products collection. They're designed by the Burberry store design team and the Burberry corporate global advertising campaign and visual merchandizing standards are all strictly applied.

The advantages for us of using a franchise model are we benefit from our partners' local knowledge, expertise and skills, be it in culture or language, detailed knowledge of the local customer profile or the ability to deal with complicated regulations in areas such as imports.

Secondly, our partners have access to better real estate opportunities.

And, thirdly, we can expand into new regions quickly, without committing capital and overhead, especially in those markets where you still need a local partner to operate.

At the half year, we had 84 stores under franchise, including the stores which are now a part of the BME JV. This is an increase of 26 over the last two years, with the majority of the stores in China, Southeast Asia and the Middle East. By the end of this financial year, we plan to have just short of 100 franchise stores open globally.

So, why do we believe Emerging Markets is still an important growth opportunity for Burberry, despite the current market difficulties? We believe that these are long-term key growth markets for luxury for reasons that most of you are probably familiar with. But, as the slide shows, although two-thirds of wealthy individuals live in the US and Europe, the highest growth is coming from markets such as India and China.

Approximately 30% of luxury is derived from Emerging Market consumers. Historically, the luxury sector does outpace GDP growth. These Emerging Market economies continue to become more sophisticated, trading up and usually preferring high profile brands along the way.

After 152 years, Burberry has unaided high brand awareness, and is positively identified with outerwear, Englishness and quality. And our check icon is one of the most recognized brand icons in the world today, according to Interbrand.

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Against this background, I'm also delighted to announce a joint venture with Jashanmal, who has been a long-standing partner in the Middle East. We will have a 59% economic interest in the joint venture and Jashanmal has the balance. But let me highlight a couple of key facts.

We have been working with Jashanmal since 1997. There's currently eight stores in the region, two of which opened in the last few weeks, four in Dubai, two in Kuwait, one in Abu Dhabi and one in Qatar. And these stores are among the most productive in the world, generating retail sales of over GBP15m last year, with comp store sales up over 40% year-to-date.

So, why would this joint venture accelerate growth in the Middle East? First, it solidifies our relationship with Jashanmal, who has been a great partner to us and gives some certainty about their part in the brand's future in the region. Second, it gives us a greater economic participation in this high growth market. And third, it enables more rapid store rollout in the region.

Along with the two stores in the first half, another two opened recently, one of which is a fabulous flagship store in the Dubai mall. We have further four openings planned in rest of the second half, including two standalone childrenswear stores, a key growth initiative for Burberry, and we will be able to expand this in new countries such as Oman more quickly.

These stores are currently among some of the most productive in the world and this is without a replenishment model in place, no monthly product flow, which have both been key drivers of our retail business in other regions.

Beyond retail, we are now in the position to launch a distribution strategy with high end department and specialty stores as wholesale customers or through retail concessions. It was interesting, because I was recently just there, and Harvey Nichols, Saks Fifth Avenue, Bloomingdales, Barneys, are all opening branches locally and there's also some wonderful specialty stores in the region that I'd love to see Burberry in.

Finally, the transaction will increase our reported EBIT by about GBP4m in the second half, being 100% of the profit and about GBP2m once minority interests are backed out.

Moving to Other Emerging Markets, China is another region where we're working much closely with our partners. This relationship is managed by our President of Asia and our Managing Director of Hong Kong. They work closely with our partner on communicating the brand and vision, ensuring the China business remains fully aligned with our global strategy.

There has been investment in store renovations recently and, as you would have expected, with the Olympics this summer. And in conjunction with our partner, we are planning to open five more stores in the second half. We currently have 35 stores in China and see the potential for 100 in five years time, as the wealth of the country continues to increase. As you saw on the chart earlier, it has the second fastest growing population of high network individuals globally, and already four of the world's ten largest luxury malls are in China.

We're also moving cautiously into other regions. Our American team, for example, is taking responsibility for our very small operations in Mexico and South America, and we now have our first stores in India and South Africa. We just opened at the Emporio luxury mall in Delhi and it looks fabulous, it's a great showcase for the brand in this new exciting market.

And it's actually interesting because, again, I was there for the opening and right now we're the number one performing brand in the mall that's opened up and it's funny to see the interest, almost, in anything British. So we're very excited about the prospects in India.

And we're also looking to expand our presence in the smaller markets in Asia. We look at markets like Egypt and Morocco.

To support our aggressive growth strategy, we've also hired a new SVP of Emerging Markets. He rejoins us after two years and will quickly develop a five year strategy to enter new markets and improve the profitability of our existing operations, be they franchise or not.

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I'm also actively involved, much as I do with our large wholesale customers, I meet regularly with our franchise partners. We have top to top meetings to assure we work together successfully, exchanging strategies as well as best practices. And our goal is to grow sales from Emerging Markets to over 10% of total sales in five years time. I think we've done everything at 10% to help make your modeling a little easier.

Let me know turn to our fifth strategy, Pursuing Operational Excellence. As you know, we've been investing in our back of house operations, improving our supply chain management, as Andy had explained last May, rolling out SAP around the world. We've been reorganizing our regions and improving and modernizing working practices around the Group, including the recent formation of a global planning function.

So let me take each of these in turn. First is the supply chain, where the team continues to deliver very material benefits. Some of these such as earlier shipments and the global carrier program we've already talked about, but let me highlight a couple of new things.

First, given the continuing improvement in our supply chain processes, we have created enough time to now ship up to a third of our products by sea rather than air, which will give us substantial savings. For example, the extreme shipping a handbag by sea costs 70p compared to GBP7 by air.

Secondly, we continue to move more closely with larger, more vertically integrated suppliers. The number of factories we chose to work with reduced by about 18% last year and a further 14% this year, specifically in our Lifestyle range where over 80% of our suppliers for the upcoming season will now be working on a full FOB basis. The benefits again of which Andy detailed more for you in May.

And finally, we continue to consolidate our distribution centers, closing nine of our smaller, less efficient units already this year. We've also opened a new distribution centre in Hong Kong, which will become a regional hub for Asia next summer. The hub DC, the new SAP system and the planning operations are all the foundation upon which we're building a world class inventory management program.

And we've also been applying some of this supply chain success in modernizing and evolving our supply chain in Spain, remembering that the premium position product was historically always designed and sourced in Spain. At the start of the year, we had over 50 local to mid-sized suppliers and, not dissimilar to Burberry in the UK, they worked on a much more traditional cut, make and trim model, where they bought the raw materials and the suppliers simply assembled the product.

In the second half, we're concentrating our production with 15 to 20 larger vertically integrated domestic suppliers and then leveraging our global suppliers in key volume categories. We're also evolving and applying corporate best practices to Spanish distribution and logistics as well. And we are continuing to explore all available opportunities to fundamentally change the business model in Spain.

Here's just a quick update on where we are with the SAP implementation. We are about 75% of the way through the rollout with the engine room in the corporate center live for a year now. Europe retail went live last autumn and we're already starting to see the initial benefits of comp detailed data for the region.

Hong Kong retail has gone live in the last few weeks and the final two elements of the US retail and the rest of Asia are planned to go live in calendar '09. As SAP is deployed, we see opportunities for further process improvement resulting in tangible benefits for improved information in areas such as replenishment and inventory management, and intangible benefits from sales, service and productivity programs.

The third part of Pursuing Operation Excellence is the work that we've also been doing on strengthening and refining our global organizational structure. In Europe, for example, we have a new CFO with many years experience in the luxury sector. Retail and wholesale are now run together under the European President, for further synergies.

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In the Americas, we have strengthened the wholesale organization significantly and have realigned them to support the corporate structure and strategy. As I mentioned, the operations in Mexico and South America are also being integrated into the American team and they're also expanding our retail presence into Canada, with stores planned now in flagship cities.

In Asia, we've reorganized many small countries into two sub-regions and headquartered our travel retail team in Korea. Our Hong Kong team has been reinforced to work more closely with our China partners. And we're delighted with our new MD in Japan, also with many years of luxury experience within this key market, and he again will lead our new non-apparel venture there. And, as I mentioned, our Emerging Markets SVP, who also joined a few weeks ago.

So now, I'd just like to share with you an example of how we continue to leverage our IT investment. The introduction of SAP is now giving us visibility into the business that we never had before, but to get the maximum benefit from it we always knew that we would need new skills. Earlier this year, we built a Global Integrated Planning Structure with a good balance of new hires and existing people. The Corporate Planning Team creates the season's targets while helping the Regional and Product Division Teams work much more closely together.

The main goals of the new planning approach are simple, leverage the data that we're now beginning to anniversary, rigorously reduce the number of styles that we design and sell, increase the productivity and sales of these styles and optimize an end to end global replenishment on our top 50 styles, which continue to drive a disproportionate amount of business.

Budget, forecast and buy the monthly flow for supply chain efficiency, [retest former] and further cash management, decrease our units of supply in all channels and divisions to increase our inventory turn and decrease our capital outlay. Put simply, better planning and improved visibility will help every stage of the business.

Just to give you a regional example, using SAP data, we found in Asia in Handbags for Autumn/Winter '08 there was an inconsistent product assortment bought between the seven companies. Due in part to their independence, they bought twice as many options as their European counterparts.

For Autumn/Winter '09 we've consolidated our Asian buying team, pre-planned the assortment with the regions working upfront with the merchants, leading to a planned reduction of nearly 50% in the number of handbag styles now for that region. Overall, the upcoming Autumn/Winter '09 season, our Design and Merchant Teams are planning about 25% fewer options than we did a year ago.

I'm thrilled that we've already made the bulk of the investment in planning supply chain, IT and our infrastructure, as they will now enable us to better manage our costs and cash through this economic downturn. We would not be standing here talking today about cost efficiency program or realizing benefits if we had not made these investments when we did.

As we said in the statement this morning, looking forward to 2009/2010, Burberry has further accelerated the benefits it's deriving from these investments made. Supply chain should yield about GBP10m of benefits in both the current financial year and '09/'10 and beyond. Design and product development efficiencies will save another few million pounds and Integrated Planning, though it's only their first season, should facilitate additional savings.

In addition, Burberry's currently reviewing the potential for further consolidation and rationalization across the Group in order to realize significant savings and underpin profitability in 2009/10 and beyond. Further details will be released at the time of the third quarter trading statement in January of '09.

Again, we're also reducing capital expenditure next year while selectively investing in those areas where we continue to meet the Group's high hurdle return on capital requirement, which are important for the long-term growth and success of the business.

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So I'll conclude on a note of irony. After nearly 30 years in this industry, I, on one hand, have never been more concerned about the external environment, while being more optimistic about the prospects for our Company. Burberry's brand perception and resulting momentum remain very strong. We are constantly inspired by the outstanding work of our creative team.

In terms of product, our large outerwear core has never been more solid. We're owed significant growth in rejuvenated businesses such as menswear, and are successfully capitalizing on new categories, such as children's and shoes.

By region, the structure in our core markets is established, executing both effectively and increasingly more efficiently while we pursue emerging markets and new businesses like non-apparel in Japan.

By channel, in retail the required functional expertise is in place and well along in establishing the necessary disciplines in processes. In wholesale, our key partners globally remain excited by Burberry's performance and our future prospects.

On the back end, we've largely completed the build and investment stage of modernizing the supply chain, IT and infrastructure and are in a position to more effectively manage the business and accelerate the realization of the planned efficiencies.

Leading it all is a very seasoned management team. As I said before, this is one of the best teams that I've ever been honored to work with and I can assure you that they're very focused and capable of taking the necessary actions to maintain progress in this environment. And we continue to attract world class talent to the Burberry team as demonstrated by our new heads of Planning, Japan and Emerging Markets.

On occasion, when I'm meeting with investors, some of you point to Burberry's complexity, multiple product categories, multiple channels across a global footprint and then point to the challenge. From our perspective, we will use this diversity to our advantage in responding to changing market demands. These inefficiencies I referred to a few minutes ago we feel will provide additional opportunities. All of which is enabled by the entrepreneurialism and the passion of our global team as they continue to execute our core strategies and pursue Burberry's pure brand global vision.

Thanks very much and Stacey and I will now take questions.

## QUESTIONS AND ANSWERS

**Erwan Rambourg** - HSBC - Analyst

Hi. Good morning, Erwan Rambourg from HSBC. Looking at the currency shifts, the euro being stronger against the pound, the Hong Kong dollar, the US dollar, the yen, do you consider this as an opportunity to increase gross margin in the future or do you see opportunities to stabilize price positioning or even to slightly cut prices to try to stimulate demand in the future?

Another question on outlets. Where do you consider the level of comfort to be in terms of percentage of sales for outlets, especially in the US where we've seen other brands in your area developing outlets at a very, very fast pace?

And then thirdly, in terms of your product pyramid, price positioning pyramid, where do you see the strongest resilience in terms of price positioning but also in terms of categories in this type of environment? Thank you.

**Angela Ahrendts** - Burberry Group plc - CEO

Okay, so how about if we take the third question first? Because I think it kind of leads back to the pricing question. It's actually interesting again, we place Prorsum at the top of the pyramid, high, high, that's what goes down the runway. London collection in the centre of the pyramid, which is pretty much what we need to wear to work every day and then we have a huge lifestyle

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core at the base of the pyramid, which is grounded in denim and sport and much more casual, that is opening price point for the brand.

I don't think that any one, and what we're actually seeing right now is the growth is coming from the center of the pyramid, we've been intensely focused on that. We've had high performance at the base of the pyramid and our department store partners, specifically in women's and some of them early in menswear, are actually with the new Beat branding in the London collection.

We've got about 10 large department store doors who are currently splitting our women's. We've been taking market share from a handful of women's competition, if you will, so we are now splitting. So you'll have London collection as a base and London women's lifestyle as still the core. That's when we talk about gaining market share with some of the department store partners, that's just one example.

So that's actually performing very strongly. Is it more resilient? A lot of times they cater to different customers. We're still seeing nice growth in Prorsum, depending on the region. The Lifestyle, we continue to do things to, internally we call it 'supercharge that business'. So, we did just land in the stores, if you've been in, a new denim strategy. Hard to believe we have such a huge casual business and we never had any denim, so we partnered with a great supplier in Turkey and put denim in all stores as well as launched exclusively in Bloomingdales in New York in windows, etc.

So we're continuing to do things to again keep that business more resilient, if you will. So I don't think in Apparel there's necessarily a level of the pyramid, nor do I feel that way in non-apparel.

A year ago I sat here and talked to you a lot about luxury bags, we were owed business at the center and the top. Those have remained, now I'm talking to you about iconic check and how we're revitalizing that at all levels of the pyramid. Again, different customers, a Coach customer trading up and, with the excitement of the brand, a lot of luxury customers coming back to the brand at the top. So we're not just focused on one area and I think that as long as we keep planning and working the business the way that we do, each will be resilient.

If I jump over to price, and then I'll shift it over to Stacey, what we are very focused on, which I tried to get across, is we learn a lot from our peers, specifically in non-apparel in some of the core categories. Without SAP, we've never been able to have a global replenishment program. We estimate that 30% to 40% of our total business someday should be on an EDI replenishment program in non-apparel, in Lifestyle with core outerwear styles that have hardly changed over the years, with the denim strategy.

So pricing on the top 50 styles that need to go on replenishment will be absolutely critical and we will take advantage of whether it's currency, whether it's sourcing benefits, whether it's to just make sure that on those top 50 we continue to gain share.

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**Stacey Cartwright** - Burberry Group plc - CFO

Okay, if I pick up the outlook point, I think you were asking, Erwan, about the balance between mainline and outlets. Typically, we've been running at about a 75/25 split in terms of what you'd expect to go through mainline and what you'd expect to go through outlets. We are not looking to make outlets a bigger share of the mix. Inevitably, with just a little bit of excess inventory that we've talked about here today, we are seeing outlets grow more strongly at the moment than mainline, but we're not looking to shift that balance overall.

You need to remember that outlets for us, the *raison d'être* is the very effective controlled clearance mechanism for excess inventory. All luxury peers have them. It's a way of keeping mainline clear. And, of course, what it does do is impact gross margins, but not necessarily EBIT margins and this is a very important point to bring out because we do have lower operating expenses within the outlets relative to mainline, most noticeably what the percentage rents are that you pay.

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**Unidentified Audience Member**

(Inaudible). You highlighted the US decelerated within your comments, is that the only market that's decelerated or is that simply the one that's seen the biggest slowdown?

Can you give us a little more color around how Europe is doing, specifically, also Spain within the last six weeks? Thank you.

**Stacey Cartwright** - Burberry Group plc - CFO

Okay, I'll pick that one up, just referring specifically to Spain, as you picked that up now, Spain really no change. It's been weak for about a year now, as you know, it continues to be weak.

Across the other markets we've called out the US particularly because that is where we see a significant deterioration from the double digit growth that we were experiencing. We have called out this morning that we've gone into negative territory in the US. I would flag however that compared with some of the releases that you've seen in the past couple of weeks, some of the department stores down minus 16, minus 17, minus 28, we're not down at those levels but we are negative from where we are. So that reinforces our view that we are outperforming in the US market but the US market is negative.

As far as the rest of Europe is concerned, highly volatile I would say, we have days where we have enormous swings up, enormous swings down, but overall, Europe is holding up very nicely in these last six weeks. And I would particularly call out the UK, I'd call out France, I'd call out Italy as probably the strongest markets within Europe. And again, Asia continues to be positive as well.

**Nick Coulter** - Numis - Analyst

Good morning, it's Nick Coulter from Numis. Just to push you on the US, are you double digit down in the US?

**Stacey Cartwright** - Burberry Group plc - CFO

We ticked into double digit down, yes.

**Nick Coulter** - Numis - Analyst

Okay, and on the cost saves, the GBP15m to GBP20m, is that the actual impact in '09/'10 and will be some wrap around the year after, or are we looking at 10 for that year?

**Stacey Cartwright** - Burberry Group plc - CFO

You'll get the full benefits of the GBP15m to GBP20m in '09/'10. As we said, that's really in recognition of the current environment. We're looking to underpin profitability going forward so we're not necessarily looking for people to add that to expectations for next year.

**Nick Coulter** - Numis - Analyst

Thank you.

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**Louise Singlehurst** - Morgan Stanley - Analyst

Hi there, it's Louise Singlehurst from Morgan Stanley. Just a quick question on any details on the flexibility regarding the sourcing contracts that you have and future commitments you might have, i.e. how much you produce internally versus external. Thanks.

**Angela Ahrendts** - Burberry Group plc - CEO

The good news is that we don't really have sourcing contracts and we produce only, pretty much, some iconic rainwear, if you will, in house. So I'd say we have tremendous flexibility, especially as we talk about the transition from a lot of smaller suppliers to big suppliers where we've got a lot more leverage, etc. So we've already decreased our supply chain, which is allowing us to ship these goods now by sea, etc. So if we opt to place later, which we're doing right now, place later and place less, and now have some option calls if you will, got a nice level of flexibility.

The tricky part as always in luxury is you have less raw material flexibility, that's really where the lead time is, it's actually less on the supplier end.

**John Guy** - MF Global - Analyst

Hello, John Guy from MF Global, excuse my cold. Just with regards to OpEx as a percentage of sales going forward, obviously in this difficult market, sales are going to decline so you would expect to see OpEx fall away a little bit as well, but you are still investing quite heavily in growth, certainly in the emerging markets. What sort of run rate can we expect to see on an OpEx as a percentage of sales going forward? Is 45% a pretty good number?

**Stacey Cartwright** - Burberry Group plc - CFO

I think you've hit the nail on the head there where you talked about the volatility of sales right now. Our ability to adjust costs in that environment, given that we have a fair degree of costs that are fixed, basically means that we're not giving any specific guidance on OpEx outlook at this point in time.

What we are saying is as we go through the second half and into '09/'10, a) we're managing discretionary spend extremely tightly, all the usual things around headcount, travel, the way in which we're spending our marketing budget. And as we outlined in the release this morning, on top of the GBP15m to GBP20m of cost efficiencies, we are coming back in January to give you more detail of where else we intend to make cost savings.

**John Guy** - MF Global - Analyst

Okay and can I just have a follow-up in terms of where your expectations are for adjusted EBIT for the year? Where do you actually see that expectation? You said mid to lower end of the range.

**Stacey Cartwright** - Burberry Group plc - CFO

Yes, again we called out that it's extremely volatile out there and we have only got the first six weeks of the second half, but if those trends were to continue then we would expect to be in the mid to lower part of the analyst expectation for adjusted PBT, and of course that PBT here, and we understand that range to be GBP160m up to GBP215m.

**John Guy** - MF Global - Analyst

Thank you.



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**Angela Ahrendts** - Burberry Group plc - CEO

Great. Well, if that's all the questions, thank you very much, and then Stacey and I will be here for a few minutes if there's anything additional. Thank you.

**Stacey Cartwright** - Burberry Group plc - CFO

Thank you very much.

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